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MANUFACTURERS HANOVER

Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

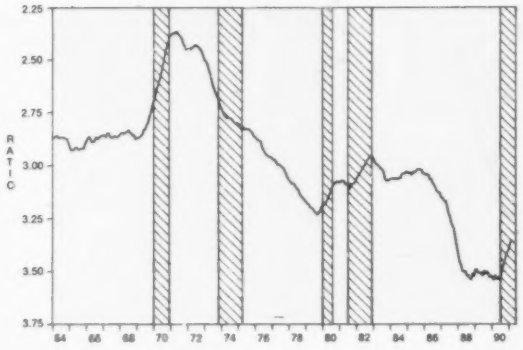
Housing On The Rise

Although the onset of spring usually brings out a sizable degree of optimism among builders and realtors, they might be forgiven this time around if such confidence is harder to muster than usual. For the past two years, hopes of a springtime housing revival have foundered on the shoals of lofty mortgage interest rates and slumping residential property prices, a pernicious combination which sent potential buyers to the sidelines and flattened home sales and housing starts. But while the mood may remain grim, there appears to be a distant flickering of light at the end of the tunnel, notwithstanding today's recession and heightened caution surrounding real estate-related lending. Indeed, just as lofty interest rates helped to trigger the recession, the business downturn has driven them lower. Lower rates, working in tandem with soft real estate prices throughout large chunks of the country, have enhanced housing affordability and set the stage for a modest, if unspectacular, residential real estate rebound.

Perhaps the most visible sign of the bottoming of the prolonged housing slide is the bounce-back in sales of both new and existing homes. Take, for example, the new home market. According to the Commerce Department, new single-family home sales rose in March for the second straight month, running at a seasonally adjusted 490,000 unit annual rate. Although this was still some 6½ percent below the March 1990 sales pace, it was a distinct improvement compared with the abysmal January 1991 sales low of just 409,000 units.

Nor were new homes the only ones selling again. In what could be the first major break in the gridlock which has plagued the resale and trade-up markets since early 1989, existing single-family homes have begun moving as well. They sold at a 3.18 million unit annualized pace in March, nearly ten percent better than the January low of 2.9 million units. And, in what could be just as big a psychological lift to the market as the pickup in sales itself, those homes that do sell are doing so more quickly. The sales wait now averages five months nationwide, down from 5.6 months in January. In response, progress is finally being made in chipping away at the inventory of unsold homes. The ratio of homes for sale-to-homes sold has dropped from a high of 9.4 at the turn of the year to 7.5 now.

RATIO OF NEW 1-FAMILY HOME PRICES
TO MEDIAN FAMILY INCOMES
(12-MONTH AVERAGES, INVERTED SCALE)



Source: Commerce Department; MH

Affordability Improves

In today's market, the often-stated adage that "location, location, location" is the principal determinant of real estate desirability has an equally-important corollary—namely, "affordability, affordability, affordability." Here, too, the outlook is brightening. After years of rapidly escalating home prices and double-digit mortgage interest rates, the combination of soft prices in many regions, and a sharp slide in interest rates, has put the purchase of a home within the reach of many more potential buyers. Whereas the median sales price of existing homes sold nationwide climbed by almost 37 percent between 1984 and mid-1990, rising from $72,400 to a peak of $98,900, this advance has since come to an abrupt halt. In fact, prices have slightly reversed direction, with the median sales price dropping back to $96,500 by March of this year.

Nowhere is this trend more pronounced than in the once-hot, but now recession-plagued Northeast. After nearly doubling during the five years ending in 1989, sales prices declined throughout much of 1990 and currently stand four percent below their $148,000 peak. The ascent of new home prices, too, has been tempered. They are

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no higher today than at the beginning of last year.

By enabling household incomes to catch up a bit, the softness in housing prices is providing a welcome breather from the relentless erosion of housing affordability which occurred throughout much of the 1980s. As shown in the chart, the median new home now costs about 3.3 times the median family's income, down from a peak of more than 3.5 times in early 1990, and better than the 3.4 times in early 1988. Nor does this calculation take into account the slide in mortgage interest rates which has been underway over the past year; these rates now stand at a four-year low. At existing new home prices and income levels, each one percentage point drop in mortgage interest rates increases the share of domestic households which can afford a new home by about five points.

Downstream Benefits

It would be premature to paint too rosy a housing picture. Although the upturn in home sales has undoubtedly bolstered builder sentiment and led to a modest pickup in new-home construction, the level of housing starts, both single- and multi-family, remains only 12 percent

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/1/91)	198,229	- 910	- 16,091
New York City (5/8/91)	32,528	+ 459	- 6,979
Commercial Paper (5/8/91)	551,666	- 1,802	- 4,852

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/1/91)	318,344	+ 1,493	- 8,539
New York City (5/8/91)	56,614	- 895	- 2,348

Total Loans and Leases Gross Adjust

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/1/91)	1,059,311	+11,837	+ 43,986
New York City (5/8/91)	173,775	- 7,942	- 7,824

Financial Markets

	Friday 5/17/91	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.54%	- .03	- 2.44
180-Day Bills†	5.79	- .06	- 2.35
Longest Bills†	6.12	+ .05	- 2.18
Recent Issues:			
7 s 4/30/93	6.81	- .03	
7⅛s 4/30/96	7.74	- .01	
8s 5/15/01	8.08	- .03	
8⅛s 5/15/21	8.28	- .05	
Municipals:			
Bond Buyer—20 Bond Index* (5/16/91)	6.94%	+ .01	- .35
Blue List Total ($ Million)	$1,269	+ $230	+$ 305
30-Day Visible Supply ($ Million)	$3,477	+ $129	+$1,000
Total	$4,746	+ $359	+$1,305
Corporates:			
Moody's Aa Composite (5/16/91)	9.18%	+ .07	- .48
30-Day Visible Supply ($ Million)	$ 400	- $400	- $ 150
Stocks:			
Dow-Jones Averages:			
Industrials	2,886.63	- 84.52	+ 66.72
Transportation	1,143.51	- 59.06	- 33.77
Utilities	210.96	- 3.14	- 3.83
65 Stocks	1,034.79	- 34.37	+ 1.54
N.Y.S.E. Composite Index	204.15	- 5.33	+ 10.63
N.Y.S.E. Avg. Daily Vol. for Week (000's)	171,940	+ 13,574	+ 1,289

*34% Taxable equivalent 10.52%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/17/91	Week Ago
Overnight	5.81%	5.69%
1 month	5.88	5.81
3 month	5.94	5.94
6 month	6.13	6.06
1 year	6.50	6.50

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/17/91)	Currency Per U.S. $	Week Ago
Belgium	35.16	35.51
Canada	1.1505	1.1518
France	5.7975	5.8440
Germany	1.7080	1.7265
Italy	1272.00	1278.70
Japan	137.80	138.85
Mexico	3005.00	3002.20
Netherlands	1.9230	1.9460
South Korea	713.04	712.35
Switzerland	1.4480	1.4640
Taiwan	27.01	27.02
U.K.*	1.7365	1.7195

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (5/17/91) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	-0.1%	-8.2%

above their January lows. What is more, the giant California housing market—which had accounted for almost one-fifth of all domestic starts as recently as mid-1989—continues to seek bottom. By the fourth quarter of 1990, housing starts in California were running more than 50 percent below year-earlier levels. But, even a modest housing rebound can pay big dividends for the economy in terms of follow-up spending for such items as furniture, carpeting and appliances.

There are some tentative signs that this is already occurring, contributing recently to the stronger tone of retail sales and staunching the slide of industrial production. Consumer spending on furniture, for example, has increased by almost six percent over the past three months; during the final quarter of 1990, by contrast, such outlays fell 4.4 percent. So, too, sales of household appliances, televisions and radios have increased for three straight months, an abrupt U-turn compared with declines in four of the final six months of last year. Not surprisingly, output of furniture and appliances is beginning to rebound—modestly, to be sure, but the type of small seeds from which economic recoveries eventually bloom.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/15/91	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	249.813	+ 2.634	+17.500
Loans to Depository Inst.	.321	+ .014	- .761
Float	.314	- .326	- .322
Total Reserve Bank Credit	287.194	+ 2.318	+13.054
Treasury Deposits with Federal Reserve Banks	4.931	- .291	- .106
Currency in Circulation	288.660	+ .917	+26.442
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	245.279	+ 3.225	+21.642
Member Bank Reserves:	**5/15/91**		
Total Reserves Held	49.462	- .422	- 9.680
Excess (Deficiency)	.945	- .299	+ .018
Net Free Reserves	.759	- .344	+ .135
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**% Change Since Year Ago**
M1 (5/6/91)	849.6	+ 7.6	+ 4.5
M2 (5/6/91)	3,392.6	+ 6.1	+ 3.5
M3 (5/6/91)	4,173.0	+ 4.1	+ 2.7
Domestic Nonfinancial Debt (4th Q'90)	10,579.9	+ 7.3	+ 7.9

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 5/17/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.40%	5.60%	5.81%
* Federal Agencies	6.00	6.05	6.30
* Municipal Notes–High Grade (34% Taxable Equivalent)	6.44	6.82	6.97
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	5.95	6.10	6.60

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	5.75%	Jun.	5.82%
15- 29 days	5.75	Jul.	5.78
30- 59 days	5.71	Aug.	5.78
60- 89 days	5.83	Sep.	5.82
90-179 days	5.88	Oct.	5.82
180-239 days	5.82	Nov.	5.82
240-270 days	6.00		
‡ Industrial Paper–Prime			
30- 89 days	5.81%	†Federal Funds Effective Rate	5.63%
90-120 days	5.85		

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'91	$ 5,562	$ 5,527	$ 5,375
Gross National Product (1982 Dollars)*	1st Q'91	$ 4,124	$ 4,153	$ 4,151
Percent Change, Annual Rate	1st Q'91	- 2.8	- 1.6	1.7
Change in Consumer Prices*	Apr '91 n	2.4%	- 1.2%	2.4%
Change in MH Cost of Living Index*	Apr '91 n	7.2%	2.4%	2.4%
Change in Producer Prices*	Apr '91 n	2.4%	- 3.6%	- 1.2%
Civilian Employment (Thousands of Persons) †	Apr '91	117,398	116,754	118,090
Unemployment as % of Civilian Labor Force †	Apr '91	6.6%	6.8%	5.4%
Personal Income*	Mar '91	$ 4,746	$ 4,734	$ 4,595
Leading Indicators Composite Index (1967=100) †	Mar '91	141.1	140.4	145.4
Industrial Production Index (1977=100) †	Apr '91 n	105.1	105.0r	108.8
Net Change in Consumer Installment Credit †	Mar '91 n	- $ 0.93	- $ 0.20r	$ 1.16r
U.S. Merchandise Trade Balance †	Mar '91 n	- $ 4.05	- $ 5.50r	- $ 8.37
Plant and Equipment Expenditures*	2nd Q'91	$ 547.9(a)	$ 540.8(a)	$ 535.5
Private Housing Starts (Thousands of Units)*	Apr '91 n	957	901	1,217
New Construction Expenditures*	Mar '91	$ 391.4	$ 397.4	$ 457.3
Total Business Inventories †	Mar '91 n	$ 821.6	$ 828.2r	$ 810.8r
Total Business Sales †	Mar '91 n	$ 522.6	$ 527.9r	$ 539.0

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure r-Revised. a-Anticipated.

MANUFACTURERS HANOVER

Strength

In 1992 stringent new capital standards will go into effect throughout the banking industry worldwide.

We exceeded these standards 2 years ago.

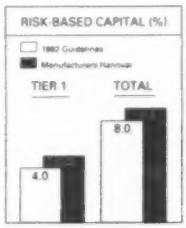
At year-end 1990, Manufacturers Hanover Corporation's primary capital totaled $6 billion, and our risk-based ratios placed us well above the new requirements established by the Basle Committee on Banking Regulations and Supervisory Practices.

Our ratios also placed us among the highest in our peer group of major money center banks.

Tumultuous times have necessitated the recognition of a primary yardstick for measuring the capital strength and overall health of our banking institutions. These new international standards are now providing that yardstick.

The focus on capital adequacy underscores the fact that the landscape of banking is changing. It also strongly suggests that only the best capitalized institutions will be able to take advantage of change and address their customers' evolving needs in an effective and timely fashion.

Using capital to measure the strength of a financial institution is hardly a new practice at Manufacturers Hanover. And while exceeding the new standards may be noteworthy, our aim is to continue building upon the sturdy financial foundation we already have in place.



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